

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 INR-10 NSAE-00 PA-04

RSC-01 USIA-15 PRS-01 SPC-03 AID-20 EB-11 SCI-06

FEA-02 NSC-07 OMB-01 SAM-01 SS-20 TRSE-00 DRC-01 /116 W

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 0370

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E.O: 11652: N/A

TAGS: ENGR, IN

SUBJECT: ENERGY: GOI POLICY ON CRUDE SUPPLIES

1. AS THE GOI STRUGGLES WITH ITS PETROLEUM PROBLEMS THE FOLLOWING ARTICLE WHICH APPEARED IN THE FINANCIAL EXPRESS ON MARCH 20 ILLUSTRATES THE DILEMMAS WHICH ARISE:

PLANNERS WARN GOVT
DON'T SEEK CRUDE CREDIT

2. NEW DELHI, MARCH 19. THE PLANNING COMMISSION HAS MUSTERED COURAGE AND WARNED THE PRIME MINISTER AGAINST SEEKING CREDITS FOR CRUDE IMPORTS.

3. THE COMMISSION HAS POINTED OUT THAT THE INDISCRIMINATE MANNER IN WHICH CRUDE CREDITS ARE BEING ARRANGED WILL AMOUNT TO MORTGAGING THE SIXTH PLAN.

4. THE ENTIRE REPAYMENT OF CREDITS, BEING ARRANGED FROM IRAN, WILL FALL DUE IN THE SIXTH PLAN PERIOD.

5. THOUGH THE IRANIAN CREDITS CARRY AN INTEREST OF 2.5 PERCENT, THE FIVE-YEAR REPAYMENT PERIOD MAKES THE TERMS OF THESE LOANS HARD.

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6. IN 1974-75 ALONE, ABOUT RS. 140 CRORES WILL BE BORROWED

FOR IMPORTING CRUDE.

7. THE COMMISSION FEELS THAT AS A RESULT OF SUCH LOANS, REPAYMENTS IN THE SIXTH PLAN WILL BE SO HEAVY THAT MORE AID WILL HAVE TO BE ARRANGED. IN OTHER WORDS, AID WILL BECOME A PERMANENT FEATURE.

8. THE COMMISSION ALSO FEELS THAT AID WILL INFLATE THE CONSUMPTION OF PETROLEUM PRODUCTS AND REDUCE THE URGENCY TO CHANGE THE FUEL BASE OF THE ECONOMY TO INDIGENOUS SOURCES.

9. IN THEORY, THE FINANCE MINISTRY, ALSO AGREES WITH THE PLANNING COMMISSION. IN THE ECONOMIC SURVEY, IT STATED THAT THE "TEMPTATION TO GO IN FOR COMMERCIAL CREDITS TO FINANCE IMPORTS LARGELY FOR CURRENT CONSUMPTION HAS TO BE FIRMLY RESISTED".

10. HOWEVER, WHEN MR. SWARAN SINGH BROUGHT BONANZA FROM TEHRAN, IT GLADDENED THE HEART OF BOTH THE FINANCE MINISTRY AND THE PETROLEUM MINISTRY. THE PETROLEUM MINISTRY GOT CRUDE AND THE FINANCE MINISTRY A WINDFALL OF BUDGETARY SUPPORT. YET ANOTHER PL 480*

COMMENT: WHATEVER THE MERITS OF THIS ADVICE, SHORT RUN CONSIDERATIONS AND LONG TERM HOPES ARE LIKELY TO BE OVERRIDING. MOYNIHAN

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